



MTTA

THE MACHINE TOOL TECHNOLOGIES ASSOCIATION

25 October 1990

The Hon T Sainsbury MP  
Minister for Trade  
Department of Trade and Industry  
1 Victoria Street  
London  
SW1H 0ET

MANAGING DIRECTOR'S OFFICE  
**RECEIVED**  
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*Ivan Minster*

We were all most grateful that you were able to meet us, with Mr W E. Garrett MP, at such short notice last night to discuss our Export Licencing concerns over trade with Iraq prior to the present stalemate and embargo.

There is considerable concern in the Industry at the type of investigation which appears to be undertaken by Customs and Excise officials and the length of time involved. As we explained to you, our industry is extremely competitive, and the companies are relatively small in size and so cannot sustain for long any interference in their normal trading patterns.

Your kind offer to raise these matters with the Paymaster General was most welcome and we look forward to learning the result of this in the near future. Time is of the essence as in the current economic downturn all available effort must be put to seeking new business without the disadvantage of the public glare and the lack of confidence which this can generate.

As we pointed out to you the companies in the Industry have paid due regard to the provisions of export licencing and have discussed the requirements with your officials. You will appreciate that such licensing is quite complex which may allow for some mis-understandings to have arisen. We hope that if this has occurred it can be overcome quickly in the best interests of all concerned.

Yours sincerely

*John F. Nosworthy*

JOHN F NOSWORTHY

STATEMENT PREPARED FOR THE HON T SAINSBURY MP, MINISTER FOR TRADE, BY  
THE MACHINE TOOL TECHNOLOGIES ASSOCIATION.

EXPORT TO IRAQ: THE CASE FOR THE BRITISH MACHINE TOOL INDUSTRY

Introduction

During the period 1980 - 85 the British Machine Tool Industry underwent a considerable transformation both in companies and in technology as a result of economic policies being pursued by the UK Government. Since 1985 the Industry has taken remarkable steps in developing a newly shaped industry based on fewer companies than before but also in the rapid introduction of technology into UK machine tools. These changes were led in the main by management buyouts, and were able to respond to the recovery in the UK market for machine tools. For example, in 1988 and 1989 the UK consumption of machine tools rose by 25 - 30% in each year to reach a figure of £1.1 billion in 1989 with UK manufacturers holding a substantial share. Even so, the market was not large enough to sustain a growing strong manufacturing industry. Consequently management has had to develop export markets to create greater volumes in production for keener prices, delivery and quality. In 1989, the exports of UK manufactured machine tools amounted approximately 45% of total production.

It is a feature of the international machine tool industry that most industrial countries tend to concentrate on the manufacture of certain types of machines and the import of others such that they have quite high import and export ratios. In export, the UK has achieved and maintained a balanced position in world trade.

Trade with Iraq

Trade in machine tools with Iraq has been well established for some 15 years. The volume has fluctuated but it has been an important market. During such a long period good relations have been built by the industry with considerable official help.

The UK Industry has received much encouragement from the British Overseas Trade Board. This was particularly so during 1988 and 1989 when Companies took part in both general engineering and military exhibitions which were visited by Ministers and Senior Officials. As well lines-of-credit were established to encourage sales into this oil-rich economy.

In view of the importance of the market, some companies have maintained permanent resident staff to assist in sales and after sales service.

In addition, two previous Ministers of Trade have indicated their support to senior managers within the Industry to continue to develop the Iraqi market - the Hon Alan Clarke MP on 20 January 1988 and the Rt Hon Lord Trefgarne on 17 May 1990. On both occasions, the industry received considerable encouragement to continue its efforts to export to Iraq.

#### The Use of Machine Tools

Machine tools are manufactured in many parts of the world for grinding, turning, drilling, milling and boring of metals and latterly, other materials. The competition in the industry is keen and hence the constant need to maintain existing markets and to search for new ones.

Like many machines used for material cutting and forming, machine tools are supplied in good faith to carry out the purpose required at the time of purchase and specifications. There is no way in which a supplier can control the uses to which machine tools can be applied given their long working life, and as well the changes which customers may make in a product line or, possibly, by onward sale. Any attempt to limit trade in machine tools because of their varying uses would be extremely restrictive on the market place. There is certainly no way that a supplier can maintain control once title has passed.

#### Export Licence Controls

The machine tool industry clearly recognises the existence of export licensing controls and the need to comply with them. Part of the COCOM regulations have for many years clearly contained an established regulatory power for the export of machine tools which should be consulted.

It became quite clear in late 1988, that the Department of Trade and Industry was viewing the issue of Export Licences to Iraq with some concern and a number of licences were not granted for this reason during 1989 and 1990.

In the immediate post Iran - Iraq war period there had been a large increase in the level of exports to Iraq to meet the industrial redevelopment plans of Iraq supported by such well known industrial companies.

This fast change of investment patterns with Iraq attracted considerable International competition in which Germany dominated and Switzerland, Austria and Italy gained sections of the market as did the UK. It is interesting to note that in your reply to a written Parliamentary Question published in Hansard on 22 October 1990 that no effort had been made by the UK Government to seek an open discussion

with other supplying countries concerning the introduction of the various embargoes following the UN Security Council resolution or to enquire into past actions. It would seem that the UK machine tool industry is being singled out for attention.

#### Press

The subject of exports to Iraq have aroused press speculation over a lengthy period some of which can only have been based upon inspired leaks. It is unlikely that Industry itself would want to play any role in this and so it must be asked whether there has been some official assistance in this area. If so, it would have been most helpful for such matters to have been cleared with either the companies or the industries concerned in advance.

#### State of the Industry

Manufacturing companies in the Machine Tool Industry are mainly small or medium sized enterprises. As such, they find it difficult to maintain a good public reputation both in home and export markets when it is clear that their activities are being investigated over a lengthy period with no obvious result other than a line of inuendo. . . .

JFN/CO

24-10-90 (revised 25-10-90)

## EXPORT TO IRAQ: THE CASE FOR MATRIX CHURCHILL LTD

### The Company

T I Matrix and T I Churchill were brought together on one site and under one management in early 1987. The resulting company, T I Matrix Churchill Ltd was sold by the TI Group in October 1987 to TDG, an Iraqi owned British registered company.

As a result, the company received considerable orders from Iraq some of which were supplied from its own resources but the majority of suppliers was bought in.

The main product lines of the Company include cylindrical grinding machines, CNC lathes, machining centres and flexible manufacturing systems. In all 65% of its production is exported World-wide with Iraq, when it was possible, as a major customer.

The Company also has extensive relations with the USSR machine tool industry and distributes machines from that source through a wholly owned subsidiary, Machine Tool Agencies Ltd.

### UN Security Council Embargo

As a result of the embargo and the thorough enforcement of it by the UK Government all trade with Iraq has ceased.

Nevertheless, the Iraqi majority shareholding in the Company attracted official interest and after some discussion it was allowed to continue to trade but with some difficulty.

It was at this stage that a proposal for a management buyout arose. In view of the trading situation caused by the embargo it was necessary for the management to seek the approval of Department of Trade and Industry, Bank of England and, Finance Houses and Banks etc before negotiating with TDG. These consents were given and heads of agreements were duly accepted and signed by both TDG and the management. It only remained for the legal documents to be prepared; five merchant banks and venture capital sources were offering financial support for the management buyout given a fair wind.

### Export licences

The Company has maintained close contact with the Department of Trade and Industry on the issue of licenses for machines and equipment which have been ordered by Iraq. This has involved both machines requiring licences and the clearance of machines which do not fall within the export licensing provisions.

The particular order which is under investigation was cleared with the appropriate Department of Trade and Industry authorities as part of the careful approach exercised by the Company.

#### Customs and Excise Investigation

In June 1990 the Company was first approached by Customs and Excise Officials who examined documentation concerning its trade with Iraq. No further contact was made until some five months later when a large party of Customs and Excise officials visited the Company earlier this month and two Directors and one Senior Manager have been charged with the allegedly falsifying licence applications. It appears that there is still insufficient evidence to carry the matter further and another review is planned for December 1990.

It is extremely difficult for an SME to continue to operate with the full confidence of its customers, suppliers and employees with such a threat before them. It surely must be the public responsibility of both the Department of Trade and Industry and Customs and Excise to have brought such matters to a conclusion within a much shorter, reasonable timescale.

#### Press

At the start of the latest visitation by Customs and Excise, management were assured that there would be no press reporting as a result of an instruction received. Overnight, it was clear that this was being ignored and some very damaging reports to both the company, the people employed in it and the industry began to appear in the press.

It is interesting to note that the only newspaper which has carried these reports is the Financial Times.

#### Plans for future development.

It is quite clear through its compliance with the licensing rules and also the negotiations for a management buyout that the Company has done everything it can to extricate itself from a situation not of its own making.

The permission granted on the one hand by DTI for the negotiation of a management buyout and yet the prohibitive actions of Customs and Excise which place considerable restraint on trading. After five months of unidentified allegations Customs and Excise have within a period of days reversed the pursuit of an independent British Company based on the existing format inspite of the apparent encouragement of DTI and the Bank of England to do so.

Whilst trade with Iraq is under an embargo and this is accepted by Company and UK Industry, it is extremely unsettling to see two government Departments put at risk the future of the Company over some business which was transacted in the face of fierce international competition achieved in the knowledge of Government prior to this current situation.

#### Current Situation

The Company has been placed under severe operating conditions caused by apparent differences in the attitudes of two Government authorities. If a clear decision is not reached immediately to allow the company to trade under normal conditions then its future and that of more than 500 employees is placed at risk at the time of market recession and growing unemployment .

There must therefore be clear and immediate action to ensure that the Company return to the market place on fair terms.

Enclosures: Relevant points concerning investigations of Matrix Churchill Ltd

JFN/CO

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Relevant Points regarding Customs & Excise Investigation of  
Matrix Churchill and their Contract with Industrias Cardoen

1. Early 1988 Quotation submitted to Cardoen.
2. June 1988 Contract for circa £6m signed with Cardoen for the supply of CNC Lathes
3. Nov 1988 Further contract for circa £6m signed with Cardoen for the supply of CNC Lathes and Machining Centres.
4. Payments of deposit and EOGD credit arrangements through Lloyds Trade and Project Finance in place February 1989.
5. March 1989 Export Licence applications made showing Cardoen as the customer and Nassr Enterprise for Industry Baghdad as the end user.
6. Enquiries by the DTI prompted a request by MCL to Cardoen for an end user certificate.
7. April 1989 End User Certificate arrives showing State Electrical Industries as end users. This is forwarded to DTI with the caveat that the end user was still likely to be Nassr.
8. Mid 1989 advised by the DTI No licences required for MCL and some Brown and Sharpe Lathes. Machining centres and circa four off Brown and Sharpe lathes not forthcoming.
9. DTI Licences for Brown & Sharpe issued. Approval for machining centres to be despatched direct from Japan received from Japanese authorities November 1989. The DTI never once asked for detailed information on the Contract only machine accuracies.
10. Despatches of these latter items commences January 1990.
11. All shipment excluding spares and tooling completed May 1990.
12. Customs and Excise visit MCL plant June 1990 question executives for two days and removed a considerable volume of files etc.
13. Follow-up visit by Customs and Excise to MCL packers and freight forwarders. Resulting in permission to deliver tooling, spares and machine equipment to complete the Cardoen contract.
14. May 1990 installation of the machines commences in Baghdad.



15. October 1990 contact from Customs and Excise who stressed they wished to continue the low key (3 persons) investigation arising from their visit in June.
16. October 1990 MCL raided by 15 customs and excise personnel (low key?). Messrs Henderson, Allen and Abraham arrested, offices searched, further large quantities of files removed.
17. Messrs Henderson, Allen and Abraham escorted from the companies premises to local police stations for questioning.
18. Customs and Excise at all times stress they were under strict instructions for a complete press blackout. To this end the officers concerned went to considerable lengths to ensure the identity of the company was withheld from local police.
19. Messrs Henderson, Allen and Abraham held for varying periods of time for interrogation up to 9 hours in the case of Mr Henderson. This period also included spells in the police cells by Messrs Henderson and Allen.
20. Statements were made by Messrs Henderson and Abraham. Mr Allen chose to remain silent on the advice of his lawyer.
21. The alleged offences being that of falsifying Licence applications, and contravention of the exportation of technical products with a military application regulations of DTI/Customs and Excise.
22. All three individuals were released without charges being preferred, bailed (technical term) to reappear on December 4th.
23. An accurate report of the days activities was reported in the Financial Times from an accredited source at Customs and Excise (So much for a press blackout!)
24. MCL along with all major British machine tool companies were actively encouraged to tender and win machine tool contracts in Iraq.
25. The Cardoen contract mentioned was one of many won by British Industry all with the tacit understanding of the DTI of the machines capabilities of being able to produce components for military applications.
26. To this effect correspondence and minutes of meetings are available whereby DTI Ministers are clearly seen to signal to the Industry that these types of exports in competition with the German and Swiss competitors were to be encouraged and in fact welcomed.

27. Cardoen are one of the worlds largest exporters of armaments and armaments technology, this was known by the DTI. They still issued the licences. DTI also knew MCL's major shareholder was Iraqi.
28. Nassr, the end user, is a significant industrial complex with many and varied industries including military component manufacture.
29. MCL delivery responsibility was to Cardoen forwarder CIFCO Bremen West Germany. This company was consolidating machine deliveries from all over Europe for this project. The DTI were aware of the involvement of CIFCO this also explains MCL's lack of accurate information on the eventual end user destination.
30. To enable a full appreciation of the attitude of the time many senior executives from the machine tool industry meet with two Ministers and senior DTI officials all of whom supported the industries activities and gave no indication whatsoever that the information and criteria being applied to licence applications was anything other than acceptable.
31. Licence application in Germany take 2/3 weeks, the UK authorities including the involvement of the MOD and FCO have been known to take up to 9 months to grant approval as was the case with the Cardoen contract (surely they were doing something during this period!! Thoroughly investigating the customer Cardoen and the end user).
32. Further sign of UK Government support for sales into Iraq come in the form of full BOTB financial support in the November 88 and 89 Trade Fairs plus the Baghdad Military Fair in March 1989. Which attracted visits by a Senior Government Minister and Officials.
33. MCL needs a quick decision in order to protect the business, the livelihood of 600 employees in the West Midlands and in addition the business situation of MCL numerous suppliers of equipment and technology.
34. Many major customer industries would be forced to source overseas if MCL were placed in a position of being unable to supply.
35. It should be noted that the current negotiations at legal level for the MBO of MCL from the Iraqis creating a wholly owned British Company have already come to a halt because of the apparent uncertainties created by the Customs & Excise investigation.

36. The export licence regulations are confused as no-one is aware of the regulations regarding Group 1 (Military Goods) and Group 2 (Atomic Energy and Nuclear Goods). The first time this was drawn to MCL's attention by the DTI was end July 1990. Copy of the DTI letter attached. This point had never before been mentioned in any other granting of licences. The above regulations state that software cannot be provided with the machines for the production of munitions.
37. MCL or any other Company supply CNC machines with standard machine software which will produce a wide range of components, including those for military application. MCL can then train operators/programmers in the UK who would then be able to write part programmes to vary the application of the machine. This makes a negates of the Export Licence Regulations.
38. The DTI received a letter from MCL signed by our Defence Project Executive. DTI telephoned MCL and said it did not help him to issue licences when he received a letter from someone with such a title; the inference being change the title.